

136133

GAO

United States General Accounting Office

Report to Congressional Requesters

June 1988

REGULATORY AGENCIES

Administrative Expenses at FHLBB and FRB for 1985 and 1986



136133

RESTRICTED—Not to be released outside the General
Accounting Office except on the basis of the specific approval
by the Office of Congressional Relations.

RELEASED

542429/136133



United States
General Accounting Office
Washington, D.C. 20548

**Accounting and Financial
Management Division**

B-114893

June 15, 1988

The Honorable Fernand J. St Germain
Chairman, Committee on Banking,
Finance and Urban Affairs

The Honorable Carroll Hubbard, Jr.
Chairman, Subcommittee on General
Oversight and Investigations
Committee on Banking, Finance
and Urban Affairs
House of Representatives

This report responds to Chairman St Germain's request that we review administrative expenses of selected federal regulatory agencies for financial institutions and to the Chairman's subsequent request that we share the results of this review with the Subcommittee on General Oversight and Investigations. As agreed with your offices, we limited our review to the Federal Home Loan Bank Board (FHLBB) and the Board of Governors of the Federal Reserve System, known as the Federal Reserve Board (FRB). Our objectives were to review policies and procedures governing administrative expenditures and compliance with them, identify and contrast applicable laws and regulations, determine budget and related disclosure processes, and summarize reported administrative expenses for 1985 and 1986. In addition, we were asked to evaluate whether staff salaries or other expenses of either board were paid for by district banks or others.

The Congress created the Federal Home Loan Bank System and the Federal Reserve System to be the nation's home mortgage lender and central bank, respectively. Each system has a governing board based in Washington, D.C., and 12 district banks. Among other services, the Federal Reserve district banks clear checks for, extend credit to, and provide currency for banks. They also issue and redeem U.S. securities. The FHLBB district banks maintain reserves for their member savings and loan associations and make loans to members from those reserves. Since 1985, the FHLBB district banks have also examined and supervised federally chartered savings and loan associations. Although neither FHLBB nor FRB receives funds from the U.S. Treasury, they are both subject to congressional oversight.

However, there are some differences in the operation of the two systems. FRB has greater latitude in its internal administrative operations

than does FHLBB. FRB is not required to submit its budget to the Congress, its employees are not subject to Office of Personnel Management (OPM) rules, nor does it have to follow federal acquisition regulations. While FHLBB is required to adhere to these requirements, FRB had chosen voluntarily to follow federal policies and requirements, or their basic intent, related to acquisition, travel, and salaries.

Based on our review, we found that FHLBB illegally augmented its budget in 1985 and 1986. It allowed its district banks to pay the costs of some travel, salaries, and consultant studies. These three types of expenditures are "administrative" expenses which are limited by the Congress and must be disclosed to it. In 1985 and 1986, the district banks paid approximately \$501,000 for salaries and travel, all of which the FHLBB should have paid. They paid about \$608,000 for consultant studies which involved FHLBB functions or responsibilities to a significant degree and may also have benefited the banks. FHLBB should have paid for the studies, except for that portion of each study that related solely to the needs and responsibilities of the banks.

With the exceptions noted above for FHLBB, we found that the internal policies and procedures for administrative expenditures were generally adequate at each board. We are making recommendations to the FHLBB to reduce the potential for recurrences of illegal budget augmentation and to provide more accurate reporting of administrative expenses to the Congress.

In response to the Chairman's request, appendixes to this report provide more detailed information on budgeting, disclosure, and oversight (appendix I); acquisition policy (appendix II); travel policy (appendix III); salary policy (appendix IV); and reported administrative expenses (appendixes V to VII).

Scope and Methodology

To fulfill the Chairman's request, we examined legal requirements and activities related to administrative expenditures at FHLBB and FRB for 1985 and 1986. Our examination included budget processes, review mechanisms, and policies and regulations and their execution at each agency. As agreed with your offices, administrative expenses were broadly defined as salaries, benefits, travel, and personal and other service contracts. We also agreed to include Federal Savings and Loan Insurance Corporation (FSLIC) (which insures deposits up to \$100,000 at most savings and loan associations) travel and contract activities as part of the scope of our work because FHLBB administers these activities, as

well as others such as accounting and budgeting, for FSLIC. We performed our review from January 1987 to August 1987 in accordance with generally accepted government auditing standards.

FHLBB Illegally Augmented Its Budget

Congressional appropriations limit the amount that FHLBB may spend annually on administrative expenses; however, FHLBB has augmented its budget authority by permitting others to pay some administrative expenses on its behalf. The Congress was neither given the opportunity to approve these activities nor made aware of their costs. As discussed below, this practice resulted in the illegal augmentation of funds for travel, salaries, and special studies.¹

Although FHLBB does not obtain funds to conduct its administrative operations and other activities from the general fund of the U.S. Treasury (as most federal agencies do), FHLBB operates much like a typical federal agency. It is subject to appropriation limits, Office of Management and Budget (OMB) budget reviews,² and federal regulations. Thus, even though FHLBB receives operating funds from assessments made against the district banks, FSLIC, or insurance and special assessment premiums on insured institutions, FHLBB is required to have a valid appropriation in order to use these moneys to pay for administrative expenses.

FHLBB's budget augmentation was primarily accomplished through the "shared expense fund" which the district banks established to pay expenses that benefited all banks. FHLBB was aware of the fund's budget and was, therefore, aware of plans to pay for some expenses which normally would have been subject to the congressionally imposed limitation on administrative expenses. Table 1 contains data on the shared expense fund for 1985 and 1986.

¹This practice is similar to one we reported in 1977. See Examination of Financial Statements of the Federal Home Loan Banking System: A Favorable Opinion but Some Management Problems (FOD-77-15, October 25, 1977). At that time, FHLBB told the Congress it would discontinue the practice. However, policies remained in place which enabled such practices to continue.

²The Competitive Equality Banking Act of 1987, enacted on August 10, 1987, provides that any assessments and other moneys received by FHLBB and FSLIC will not be subject to apportionment by OMB.

Table 1: Shared Expense Fund Activities for 1985 and 1986

Activity	1985	1986
Presidents' meetings	\$124,925	\$119,138
Other meetings and conferences	19,347	63,457
Studies	465,767	572,921
Other	90,954	23,995
Total	\$700,993	\$779,511

Source: FHLBB, Office of District Banks.

Travel

FHLBB's approved budget included \$560,000 and \$1,030,000 for 1985 and 1986, respectively, for the travel expenses of board members and employees. However, during these 2 years, \$368,000 in travel expenses for FHLBB members and employees was paid by the district banks' shared expense fund, individual district banks, the Federal Home Loan Mortgage Corporation (FHLMC), and the Office of Finance, the fiscal office of the district banks. FHLBB considered its acceptance of travel expenses from others proper on the basis of a 1984 opinion from its general counsel. The FHLBB general counsel maintained that the bank board had "limited gift authority" under 12 U.S.C. 1701c to accept lodging and meals from others.³

In late 1986, there was extensive publicity regarding travel expenses for some FHLBB officials which were paid by district banks and others. As a result, the FHLBB Chairman directed, in an order dated December 4, 1986, that all travel expenses be paid from funds approved by the Congress. He specifically prohibited accepting travel payments from the district banks, entities of the banks, and FHLMC. FHLBB reaffirmed this action by stating in its February 1987 Financial Integrity Act report to the President that it discontinued the practice of permitting its district banks or other bank system entities to pay FHLBB travel expenses.

In response to a congressional inquiry, the Comptroller General issued a decision on March 2, 1987, regarding FHLBB's travel expenses paid by the shared expense fund. The opinion stated that "neither the Board nor its officers and employees have the legal authority to accept payment or reimbursement from the Banks for the travel-related administrative expenses of Board personnel."

³Agency-specific laws provide such "limited gift authority" under which government agencies can accept gifts, bequeaths, etc., and use them in carrying out their missions.

To determine FHLBB's compliance with its Chairman's 1986 order, we reviewed budgets, invoices, and correspondence and interviewed officials at three bank system entities: the Chicago District Bank, the Office of Finance, and FHLMC. We found no indication in the selected 1987 transactions which we reviewed that those entities had paid FHLBB travel expenses after the order was issued. We limited our follow-up to these three entities because they had paid FHLBB travel expenses in 1985 and 1986.

Salaries

On four occasions from November 1985 to December 1986, the FHLBB Chairman temporarily filled management vacancies at FHLBB and FSLIC with district bank employees who continued to be paid by their district banks. FHLBB justified these appointments, which lasted for periods of 4 months to 18 months, on the basis that a crisis existed in the savings and loan industry and that qualified appointees were needed to manage the crisis. Although FHLBB believes that it was appropriate for the banks to continue paying the employees' salaries, we disagree and believe that the payment of salaries by the banks was an illegal augmentation of FHLBB's authorization for funding. Normally, two of the three positions would be filled at the senior executive service level and one at the federal grade 15 level. The federally authorized salaries for these positions would range from \$52,000 to \$69,000. The salaries paid to each of these individuals by the banks ranged from \$100,000 to \$140,000.

The management positions and dates they were filled with bank employees are as follows:

- Director, FSLIC, from November 1985 to May 1986, and again from May 1986 to June 1987;
- Director, FHLBB Office of Policy and Economic Research, from January 1986 to June 1987; and
- Director, FSLIC Office of Mergers and Acquisitions, from December 1986 to March 1987.

Although FHLBB disclosed the executive-level appointments to its appropriation subcommittees and through news releases, it did not provide information on the salary arrangements.

We requested FHLBB's comments on the justification and propriety of these appointments and payment of salaries by the banks. In a July 31, 1987, letter, FHLBB's general counsel contended that the appointments and payment of salaries of these bank employees were proper under the

broad statutory delegation of authority given FHLBB in 12 U.S.C. 1437(a) and, therefore, were not illegal augmentations of FHLBB's funding authorization. Further, he stated that the fact that FHLBB had budgeted funds for the positions in question did not preclude FHLBB from appointing district bank or bank system employees on an interim basis. He also stated that to hold that such employees must leave the payrolls of the district banks and be employed and paid directly by FHLBB would be contrary to a long-standing practice and apparent congressional intent.

We disagree with FHLBB's position and find that FHLBB illegally augmented congressionally appropriated funds. The Congress annually authorizes the level of spending for the administrative expenses of FHLBB and FSLIC, including salary costs. In effect, the acceptance of the services of employees paid by the district banks to perform the functions and responsibilities of FHLBB and FSLIC officers and employees, the salaries for which the Congress established spending limits, would allow FHLBB to exceed the congressionally authorized spending level. Because district banks paid the salaries, the funds that would and should have been used to pay the salaries of FHLBB or FSLIC officers and employees were not used for this purpose.

Such an augmentation of appropriated funds is not permissible without express statutory authority as was outlined in the Comptroller General's March 2, 1987, decision. In our view, 12 U.S.C. 1437(a), which allows FHLBB to delegate certain functions to its officers, employees, or agents, cannot be interpreted as the kind of express statutory provision that would authorize such augmentations. Consequently, we believe that payment by the banks of salaries for individuals exclusively carrying out FHLBB or FSLIC responsibilities constitutes an illegal augmentation of appropriations since moneys are included for the salaries in the FHLBB and FSLIC appropriations.

Special Studies

FHLBB's annual budget includes funds for special studies and professional services, as well as for its Office of Policy and Economic Research.⁴ For example, in 1986, the amount budgeted was about \$1,400,000. At the same time, the bank presidents approved, with the FHLBB Chairman's knowledge, paying (through the shared expense fund)

⁴This office is responsible for policy and economic analyses in the areas of general economic development, capital and mortgage markets, housing, the savings and loan industry and competing financial intermediaries, as well as for matters relating to FHLBB legislation, regulations, and policies.

for studies which analyzed FHLBB activities and which included recommendations for improving FHLBB operations. We also found that this practice occurred in prior years.

We identified the following studies conducted during 1985 and 1986 which were paid for by the district banks.

- A Booz, Allen & Hamilton, Inc., study requested by the former Chairman, which cost \$308,900, of which about \$283,000 was paid for in 1986 and \$25,900 in 1987. This 1986 study examined the organizational structure, processes, and controls of FHLBB, FSLIC, and the district banks, and made recommendations for improvements.
- A Touche Ross & Company study of FHLBB's data processing needs. FHLBB's Director of Information Systems Division approved invoices totaling \$94,700 for this 1985 contract.
- An SRI International management study of FHLBB functions. This study made numerous recommendations, including one that field examiners be transferred from FHLBB to the district banks, a change which was initiated in July 1985. The 1984 to 1985 study cost almost \$553,000, about \$323,000 of which was paid for in 1984 and \$230,000 in 1985.

We requested FHLBB's comments on the use of the shared fund to finance the above activities. In a July 1987 letter, FHLBB's general counsel stated that the shared expense fund was established and controlled by the banks, and all expenses paid from that fund were limited to expenses which benefited all banks. He noted that the district banks discontinued the shared expense fund entirely in October 1986. In regard to the three studies we cited, he stated that because FHLBB members who served during the time periods involved are no longer in office, it was "difficult to determine all the circumstances that led to those studies and activities. Whether they [the studies] were properly within the purview of the Banks or more properly should have been paid for by the Board may be a matter of judgment difficult to 'second-guess'."

Control of the shared expense fund by the banks did not ensure, in our opinion, that those funds were never improperly used to pay for some activities that involved FHLBB functions or responsibilities to a significant degree and therefore should have been paid for by FHLBB. Regardless of who controlled the fund, using bank funds to pay for FHLBB business for which congressionally appropriated funds were available would constitute an improper augmentation.

The close relationship between FHLBB and the district banks makes it difficult in some cases to determine whether a particular study was made to carry out or further a legitimate function of the FHLBB, the banks, or both. Relevant factors that should be considered include the following:

- Which entity (FHLBB or the banks) requested the study?
- To which entity were the study report and any recommendations directed?
- Which entity was the primary beneficiary of the study?
- What was the purpose of the study?

As stated previously, FHLBB officials were unable to provide us with information as to its reasons for allowing the shared expense fund to finance these studies. Moreover, the FHLBB has no criteria for determining when the shared expense fund may pay for all or part of studies or other FHLBB-related activities. Based on the information that was available to us regarding these studies, it is our view that these studies did involve FHLBB functions or responsibilities to a significant degree. Therefore, FHLBB should have paid for these studies using its own funds with, at most, a contribution from the shared expense fund for the part of the costs that related solely to the needs and responsibilities of the banks. Payment of the entire cost of these studies out of the shared expense fund resulted in an illegal budget augmentation.

Congressional Limitation May Have Been Exceeded

Aside from the matter of whether FHLBB should have allowed all or a portion of district bank payments on its behalf, such practices pose risks of exceeding the congressionally established administrative spending limits. FHLBB's limit, including FSLIC's, was not exceeded for 1986. However, the 1985 limitation of \$26,834,000 would have been exceeded if the entire cost paid by others for special studies of \$324,700 was an illegal augmentation. We were not able to determine what portion, if any, of the cost of the studies related solely to the needs and responsibilities of the banks and therefore should have been paid by the banks. Assuming the entire cost of those studies was an illegal augmentation, that amount combined with \$186,996 of travel paid by others, would result in the 1985 limitation being exceeded by \$210,000. In addition, the illegal augmentations of the budget were not fully disclosed to the Congress.

New Fund for Sharing Expense

Although the shared expense fund was discontinued in October 1986, the district banks established a new "joint expenditures fund" in March 1987. According to a district bank official, it has the same purpose as the shared expense fund. In view of FHLBB's previous questionable, and in some cases illegal, acceptance of services purchased through such jointly operated funds, we believe stringent controls are needed to help ensure similar abuses do not occur with the newly established joint expenditure fund.

Federal Reserve Board and District Banks Share Some Expenses

The organizational structure of FRB, with its 12 district banks, also presents circumstances for the sharing of expenses. Expenses for district bank personnel to work at FRB temporarily, as well as for systemwide studies or projects, are shared by FRB and its district banks. FRB's budget process and internal policies provide for sharing of such expenses, subject to budgetary limits established by FRB. While the FRB budget is not subject to congressional review and funding limits, the budget and expenses are reported to the Congress. It should be noted that FRB's policy prohibits payment of travel expenses, except for foreign travel, by its district bank or others. (See appendix III.) With respect to foreign travel, FRB has allowed payments of travel by host countries because this is permitted by the Foreign Gifts and Decorations Act of 1966, as amended.

Salary

FRB uses district bank employees for temporary assignments, including four in 1985 and six in 1986. According to the FRB controller, arrangements about which organization will pay salary and other costs are decided on a case-by-case basis. However, during our review, the controller's office developed a policy to standardize such arrangements.

Special bank personnel assignments are for a period of several months and are coordinated through a "system interchange program," designed to take advantage of personnel with unique skills, to alleviate unusual work loads, and to provide developmental opportunities. Typically, when district bank personnel work at FRB, the district bank continues to pay the individual's salary at the previously established rate, while FRB pays travel and temporary living expenses. During 1985, three district bank employees worked temporarily at FRB for 3 month to 9 month periods under such arrangements, while five district bank employees did so in 1986.

Also during 1985 and 1986, FRB appointed two bank employees to assignments as deputy director of the Division of Banking Supervision and Regulation. FRB paid the salaries of both employees, while the banks paid travel, temporary living expenses, and other costs. The salaries were within the FRB salary scale. The FRB annual report fully disclosed both appointments.

Projects

Costs for certain project expenses are shared among the 12 district banks, while others are also shared with FRB. FRB's principles, practices, and procedures to be used by banks in accounting for operating expenses, including those for projects, are specified in its Federal Reserve Planning and Control Systems Manual, known as the PACS manual. The manual defines system projects as "planned efforts that address a broad area and seek to meet long-range objectives or improve long-range productivity throughout the system." In order for costs to be shared, such planned efforts must be recognized and identified as system projects by the Federal Reserve Conference of Presidents or First Vice Presidents or other groups named in the PACS manual.

The 12 district banks, and sometimes FRB, share the costs of such projects on the basis of the extent to which each benefits. For example, a major expense shared by FRB and the district banks is the cost of operating a Contingency Processing Center, which provides support for critical data processing services in the event of major emergencies at district banks or the Federal Reserve Board. FRB pays 51 percent of the operating cost and 80 percent of the capital cost of the center, while district banks pay the remainder.

FRB's Division of Federal Reserve Bank Operations publishes an annual report on the nature of the system projects and their cost, which fully discloses such information to the Congress.

Conclusions

At FHLBB, the operation of shared funding arrangements has resulted in expenditures for FHLBB's administrative expenses which have been neither subject to congressional oversight nor expressly authorized. Such expenditures for travel, salaries, and special studies were improper and constituted illegal budget augmentations. While the shared expense fund was discontinued in October 1986, there are no assurances that any joint expenditure fund subsequently established would not be susceptible to similar misuse, especially since FHLBB has no

criteria for determining when expenditures from such funds for board-related activities are permissible.

We recognize that a legitimate need may exist for joint arrangements for funding common administrative expenses for organizations such as the Federal Home Loan Bank System, which consists of a number of bank system entities. The potential for abuse, however, exists in cases where one or more entity is subject to limitations on its expenditures while the others are not.

With the exceptions noted for FHLBB, we otherwise found that both boards have adequate internal policies governing administrative expenditures and, on the basis of our tests, their compliance with these policies was adequate. Some minor weaknesses in procedures or compliance were noted at both boards (see appendixes) and the cognizant officials are taking corrective actions.

Recommendations

To ensure the completeness of the FHLBB budget, full congressional oversight, and compliance with the administrative budget limitation, we recommend that the FHLBB Chairman issue orders with the following provisions.

- FHLBB must budget and account for all administrative expenditures and report such expenditures to the Congress.
- Expenses shared among the district banks may not include expenses for activities related to functions or responsibilities of FHLBB to a significant degree unless the banks' payments are limited to the portion of the activity that relates solely to their functions or responsibilities.
- Criteria should be established for determining what types of expenses may be shared among FHLBB and the district banks.
- The guidance provided in the March 2, 1987, Comptroller General decision regarding FHLBB travel expenses paid from the shared expense fund should be incorporated in developing these orders.
- Any shared expense arrangements must be fully disclosed to the Congress.

Because FHLBB has a history of establishing joint funding arrangements with its district banks and not disclosing them to the Congress, we also recommend that the FHLBB inspector general make periodic compliance reviews of policies applicable to budgeting and disclosure of all administrative expenses.

Agency Comments and Our Evaluation

We requested comments on a draft of this report from FRB and FHLBB. FRB officials told us they would not submit written comments because the draft report did not contain recommendations to them. However, we informally discussed the draft report with FRB officials and incorporated their comments where appropriate. FHLBB provided written comments on our draft report. (See appendix VIII.) The comments stated that FHLBB's inspector general had agreed to conduct periodic compliance reviews regarding budgeting and disclosure of administrative expenses. However, FHLBB officials did not see a need to issue additional orders regarding the use of a shared expense fund because FHLBB intends to eliminate the fund.

We are pleased that FHLBB's inspector general has agreed with our recommendation to conduct periodic compliance reviews of policies applicable to budgeting and disclosure of all administrative expenses. However, we disagree with FHLBB's conclusion that our recommendation to issue orders containing specific guidance to reduce the potential for abuse is no longer applicable.

Our recommendation that the Chairman issue orders was intended to provide for directives similar to the travel expense order issued on December 4, 1986. This order stated that FHLBB and FSLIC employees shall perform all official travel in accordance with current federal travel regulations, and reimbursement shall be made in accordance with these regulations and from funds approved by OMB and the Congress. Thus, travel was mandated to be reimbursed only by FHLBB and FSLIC. If FHLBB intends to have the same policy applicable to salaries and special studies, it should be so stated in specific orders. Furthermore, because the practice of temporarily filling management vacancies at FHLBB and FSLIC with district bank employees paid by the district banks did not involve the shared expense fund, FHLBB's intent to eliminate further use of a shared expense fund does not address this improper practice.

Current management's stated intent to discontinue improper shared funding arrangements is a positive step. However, the fact that improper budget augmentations similar to those discussed in this report have occurred in the past demonstrates the need for a written policy that officially prohibits such augmentations of FHLBB administrative funds. With the passage of time and routine personnel turnover, the force of verbally stated policies tends to diminish. We believe that the practices discussed in this report might not have occurred had clear, written policies on administrative funding arrangements been available to guide the decision-making process.

Also, absent official, written criteria governing these areas, the potential effectiveness of the inspector general's planned compliance reviews will be reduced. By their nature, such reviews measure compliance with established policies and procedures. We believe that FHLBB's encouragement of such reviews, while declining to establish specific policies with which compliance can be evaluated, is inconsistent.

In summary, we continue to believe that although FHLBB has stated its intent to eliminate further use of the shared expense fund, the Chairman's written orders are needed to clearly document and communicate the policy, as stated in our recommendation, and to incorporate a policy specifically relating to the temporary use and payment of bank employees at FHLBB and FSLIC.

Unless you publicly announce its contents earlier, we will not distribute copies of this report until 5 days from its date of publication. At that time, we will distribute copies to the Chairman, Board of Governors of the Federal Reserve System; Chairman, Federal Home Loan Bank Board; and other interested parties upon request.



Frederick D. Wolf
Director

Contents

Letter	1
Appendix I Budgeting, Disclosure, and Oversight	16
Appendix II Acquisition Policy	19
Appendix III Travel Policy	21
Appendix IV Salary Policy	24
Appendix V Federal Home Loan Bank Board Administrative Expenses for 1985 and 1986	28
Appendix VI Federal Savings and Loan Insurance Corporation Administrative Expenses for 1985 and 1986	30

Appendix VII Federal Reserve Board Administrative Expenses for 1985 and 1986	32
Appendix VIII Comments From the Federal Home Loan Bank Board	34
Table	Table 1: Shared Expense Fund Activities for 1985 and 1986 4

Abbreviations

FHLBB	Federal Home Loan Bank Board
FHLMC	Federal Home Loan Mortgage Corporation
FRB	Federal Reserve Board
FSLIC	Federal Savings and Loan Insurance Corporation
GAO	General Accounting Office
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PACS	Federal Reserve Planning and Control Systems
SES	senior executive service

Budgeting, Disclosure, and Oversight

Neither FHLBB nor FRB receives any funds from the U.S. Treasury. However, in 1936 the Congress mandated that the FHLBB budget for administrative expenses be reviewed through the hearing and approval process required for the appropriation of federal funds. FRB is not subject to such a requirement. However, congressional hearings and a new FRB publication have recently provided greater disclosure of the FRB budget. Both boards are subject to GAO audits and conduct their own internal audits as well.

FHLBB Internal Budget Process

FHLBB formulates its budget in a manner similar to that used by federal agencies. FHLBB prepares budget estimates on the basis of Office of Management and Budget (OMB) guidance and, after internal review and approval, submits the budget to OMB for review. The estimate is included in the President's budget presented to the Congress, and the appropriations subcommittees of the House and the Senate hold hearings on the budget.

Oversight and Disclosure of Administrative Expenses

As previously noted, although FHLBB derives its funds from assessments, legislation requires an appropriation from the Congress for the board's administrative expenses. The congressionally set limitation on administrative expenses for fiscal year 1986 was \$30,528,000; for 1985 it was \$26,834,000.

Although the annual appropriation legislation limits the amount FHLBB may spend on administrative expenses, it does not attempt to comprehensively define the types of expenditures which FHLBB should consider as being administrative in nature, except for expenses related to procurement of services, training for state examiners, and official reception and representation functions. Within this latitude, FHLBB budget officials designate expenses which, in their judgment, relate directly to the program or mission of FHLBB or the Federal Savings and Loan Insurance Corporation (FSLIC) as being nonadministrative. Expenses which are deemed to support FHLBB's or FSLIC's mission are considered as being administrative for the purposes of the budget limitation.

FHLBB provides detailed information on the types and amounts of expenses in each category in its budget submissions, and thus its allocation between administrative and nonadministrative expenses is subject to congressional oversight. FHLBB's records indicate that it operated

within the 1985 and 1986 limitations since the total expenditures identified as “administrative” did not exceed the limitations. However, as discussed in our report, the fact that FHLBB allowed its district banks to fund certain administrative expenses raises doubts about compliance with the 1985 limitation.

The FHLBB budget is presented in the Budget of the United States Government—Appendix. In addition, FHLBB’s financial statements, which GAO audits, are usually included in its annual report. FHLBB is also subject to other GAO audits, and, since 1984, has had its own inspector general, whom the board appoints and who reports to the Chairman.

FRB Internal Budget Process

Each spring, FRB begins developing its budget for the fiscal year beginning the following January. The process involves the members of the FRB, known as “governors,” especially the governor charged with administrative responsibilities, as well as division management and the controller’s office. The governors assess needs, set objectives, make estimates, and issue a “budget guideline,” comparable to OMB’s “budget call.” The controller, staff director, and committees of governors review each division’s budget before consolidating the budgets and presenting them to the Board of Governors for approval in December.

After cash requirements for the first 6 months of the budget year are determined, FRB assesses each of the 12 district banks an amount proportionate to its capital stock and surplus. The same process occurs for the last 6 months.

Oversight and Disclosure

The Senate Banking Committee held annual oversight hearings on FRB budgets from 1977 to 1980. There were no other hearings until 1986 when the House Subcommittee on Domestic Monetary Policy of the House Committee on Banking, Finance and Urban Affairs held oversight hearings that year and again in 1987 following a Joint Economic Committee study of the FRB budget status. A 1985 Congressional Budget Office report for the Joint Economic Committee concluded that subjecting FRB to the federal appropriations process would pose a threat to its independence and that some changes in congressional oversight and FRB budget data might well meet congressional needs without presenting such a threat.

At the hearings in 1986, the FRB Chairman presented the Congress with the first edition of Annual Report: Budget Review, a detailed report on

the budgets of the Federal Reserve System—the board and the district banks. The most recent edition, presented at the 1987 congressional hearing, describes budgeted expenses for 1987, compares them with expenses for 1986 and 1985, and presents an analysis of system productivity.

Other sources of information on FRB budget and expenditures exist as well. Since 1965, FRB operating expenses have been included, for informational purposes, in OMB's Budget of the United States Government—Appendix. FRB presents its financial statements, audited annually by an independent accounting firm, in its annual report, which it submits to the Congress as required by the Federal Reserve Act.

Since 1978, FRB has had internal audit and review efforts under the direction of the governor charged with administrative duties. Also since 1978, when the Federal Banking Agency Audit Act was passed, FRB has been subject to GAO audits.⁵ FRB has recently taken action to strengthen its own internal audit program. In July 1987, FRB established an independent Office of Inspector General (OIG). The OIG's charter stipulates that the Board of Governors will appoint the inspector general, who will report to the board, and that the inspector general will be under the supervision of the Chairman.⁶

⁵We have issued about 35 audit reports on various aspects of FRB operations and have included FRB to some degree in approximately 50 other reviews. Two reports made recommendations to strengthen internal audit at FRB: Internal Auditing Can Be Strengthened in the Federal Reserve System (GAO/GGD-80-59, August 8, 1980) and Internal Audit: Nonstatutory Audit and Investigative Groups Need To Be Strengthened (GAO/AFMD-86-11, June 3, 1986).

⁶The former Assistant Controller of FRB was named inspector general on July 20, 1987.

Acquisition Policy

The Federal Acquisition Regulations govern federal agencies' acquisition of supplies and services. FHLBB now follows those federal regulations,⁷ and FRB's policy is to conform to the concepts contained in the regulations. Our review of selected administrative expenditures made through contracts, purchase orders, and other acquisition documents disclosed that each board generally complied with its respective regulations. We tested compliance for such requirements as the appropriate use of requisitions, competition, approvals, and accounting classifications. We reviewed 83 percent of FHLBB's and FSLIC's and 77 percent of FRB's 1986 expenditures for acquisitions.⁸ We identified some minor weaknesses in practices at both boards, and, after discussion with the appropriate officials, they took corrective actions.

We also identified illegal FHLBB budget augmentations for special studies accomplished through shared funding arrangements. This issue is discussed in detail in the section on special studies in the preceding letter.

Federal Home Loan Bank Board

The policies of both boards require competitive bidding to the maximum extent possible and written justification for awarding business to a "sole source" on the premise that the vendor is the only one able to provide the product or service. At FHLBB, acquisitions must be initiated with a requisition form approved by the authorized personnel in the requesting, budget, and procurement divisions.

FHLBB policies and procedures are published in its How-to-Do-It-Manual. However, we noted that FHLBB had not revised the manual since 1984 to reflect current dollar amounts of procurements which specific designated officials may approve. In addition, the manual did not document criteria for solicitation of competitive bids for purchases up to \$10,000. We discussed these matters with the Chief of Procurement, and he submitted revisions to the administrative office which is responsible for updating the manual.

During the course of our work at FHLBB, we questioned one contract regarding FHLBB's adherence to its policies requiring use of competitive bidding to the maximum extent possible. The contract as initially bid

⁷In 1981, GAO criticized FHLBB procurement practices and recommended that the board adopt and comply with federal procurement regulations. See FHLBB's Management of Its Procurement Activities Should Be Improved (PLRD-81-18, May 13, 1981).

⁸At FHLBB and FSLIC, we used obligation data instead of actual expenditure data because the obligation data was more readily available.

was for building maintenance but had been modified and expanded to provide additional services and products. We discussed the contract with the inspector general, who was planning an in-depth review in 1988 of FHLBB's procurement practices. As part of that review, the inspector general will examine this contract.

We found weaknesses in the assigned budget and accounting codes which identify the types of services acquired. Proper coding of expenses is necessary to ensure accurate budgeting and accounting, as well as accurate disclosure of services acquired. For example, we noted that FSLIC employees sometimes coded legal services and microfilming costs as "consulting," while several vouchers payable to a public accounting firm for specified consulting services were coded as "other professional services." In other instances, identical contracts—same vendors and same services—were coded differently, possibly because the existing chart of accounts has code numbers and titles only. We believe the lack of a chart of accounts with definitions for each code was the primary cause of the inconsistent classifications. Different groups assign the budget and accounting codes for FHLBB and FSLIC documents, a situation which makes it easy for inconsistencies to occur given the absence of written definitions. During the course of our review, the budget and controller's offices prepared a draft chart of accounts with definitions. The FHLBB controller issued the chart of accounts in March 1988.

Federal Reserve Board

At the Federal Reserve Board, authorized personnel in the requesting, budget, and procurement divisions must approve acquisition requests. FRB policies also require that contracts for more than \$2,000 be approved by the program analysis and budget section of the controller's office.

In November 1986, FRB issued its latest acquisition policies in a new Internal Administrative Procedures Manual. While overall we found that FRB generally complies with its policies and procedures in the transactions we tested, we found breakdowns in the procedures for filing financial disclosure forms by consultants and staff associates. An FRB policy requires that individual contractors who work for FRB as consultants (independent contractors) or "staff associates" (who work under the direct supervision of FRB personnel) file financial disclosure statements with the legal division to help avoid misconduct and conflicts of interest. During the course of our work, FRB officials developed new procedures to ensure compliance with the financial disclosure policy.

Travel Policy

The Federal Home Loan Bank Board follows the standard federal travel regulations, while the Federal Reserve Board operates under most of these regulations, with the major exceptions relating to travel allowances for the Board of Governors. We reviewed a sample of FRB travel vouchers for governors and executive-level employees and found that they complied with applicable policies. At FHLBB, a similar review of travel vouchers also revealed compliance with the federal travel regulations. However, we identified illegal FHLBB budget augmentations for travel expenses accomplished through shared funding arrangements. This issue is discussed in the section on travel in the preceding letter.

Federal Home Loan Bank Board

Our examination of judgmentally selected travel vouchers for executive-level employees and of the work of the FHLBB inspector general for those employees and board members, indicated that the necessary controls to ensure compliance with federal travel regulations were in place and our testing of vouchers disclosed compliance with the regulations.

Federal travel regulations provide for reimbursement on a lodging plus per diem system. They set a maximum daily rate, which is the actual lodging cost (up to a maximum) plus a daily allowance for meal and incidental expenses of \$25 or \$33, depending on the location of the travel.

We tested for such requirements as authorization, documentation, voucher accuracy, and appropriate reviews. In addition, as part of our 1986 financial statement audits of FHLBB and FSLIC, we examined a judgmental sample of travel vouchers for such requirements as authorization, advance processing, supervisor signatures, and posting to the general ledger. However, we did not sample travel vouchers for the board members because the FHLBB inspector general conducted extensive reviews of their travel for 1986 and prior years. The inspector general's work focused on two issues regarding travel expenses: (1) compliance with policy and procedures in processing the former Chairman's vouchers and (2) the extent to which any payments made by district banks, or others, for expenses of individuals who worked for the board duplicated board payments.

Regarding processing of the former Chairman's vouchers, the inspector general identified numerous problems such as missing signatures or inadequate accountability for airline tickets. The audit report states, however, that the findings "should not be taken as representative of travel voucher processing for all FHLBB employees' vouchers." We noted

this limitation, and in our review examined other vouchers using the same criteria used by the inspector general.

The FHLBB inspector general audit for double reimbursements found 11 "possible double payments" totaling \$875. Only three cases (for two board members and one executive-level employee) involved over \$100. The individuals involved disagreed with the inspector general's opinion. The inspector general referred his findings to the controller for any collection action he deemed necessary. The controller collected payments in two of the three cases.

Federal Reserve Board

Our review of travel vouchers for governors and executive-level employees revealed compliance with FRB's travel policies. Further, our testing indicated that appropriate controls were in place for the processing of travel vouchers. Such testing considered the requirements for travel authorizations, supporting documentation, accuracy of vouchers, and voucher reviews. However, FRB had some additional, unique provisions regarding travel.

The noteworthy differences between FRB travel policy and federal regulations relate primarily to governors of the board. For example, the governors are allowed "actual necessary" transportation expenses and may fly first class. Governors can claim either per diem at \$46 or their actual expenses, plus actual cost of lodging, for which FRB has not set a maximum. FRB policy also allows officers (executive-level employees) and other employees actual transportation expenses and a per diem up to \$33, plus actual cost of lodging with no set maximum. Regarding FRB's travel policy of no maximum lodging cost, FRB officials informed us that all travel claims are audited and the lodging costs are assessed as to their reasonableness and excessive claims are subject to adjustment.

FRB's travel policy states that the board will pay for all travel expenses incurred on board-related business. Its policy does not permit payments of such expenses by its district banks or by others. Our review of travel vouchers substantiated this policy. We found four instances in which a district bank or other party (a professional association) initially paid some travel expenses such as a deposit on a hotel room at a meeting site, but FRB subsequently had reimbursed such payments.

One exception to this travel policy relates to foreign travel. As provided by the Foreign Gifts and Decorations Act of 1966, as amended (5 U.S.C. 7342(c)), federal employees are permitted to accept gifts of travel

expenses for travel entirely outside the United States. FRB operates under this policy and our sample revealed two instances when its Chairman traveled on aircraft provided by the host country.

Salary Policy

In addition to our review of the special salary arrangements discussed previously, we reviewed the salary policies and procedures of both FHLBB and FRB. Their pay scales were virtually the same because FHLBB is legislatively required to follow the federal pay scale, while FRB had chosen to do so. In addition, the law sets salaries for FHLBB and FRB chairmen and members. Salary and benefits represented approximately 60 percent of FHLBB's operating expenses in 1986, and approximately 69 percent in 1985. (See appendix V.) However, FHLBB personnel expenses decreased for 1986 because of the transfer of examination staff to the district banks. At FRB, salary and benefits in 1986 and 1985 represented 71 percent and 73 percent, respectively. (See appendix VII.) Our testing of the FHLBB payroll system and review of the independent public accountants' testing of the FRB system showed that necessary controls were in place to ensure the accurate processing of salaries and related payroll transactions.

We also identified illegal FHLBB budget augmentations for salaries accomplished through shared funding arrangements. This issue is discussed in detail in the section on salaries in the preceding letter.

Federal Home Loan Bank Board

FHLBB has been subject to federal pay scales since 1949. The Classification Act of 1949 provided that unless the act or an agency's enabling legislation specifically exempted an agency, agencies subject to the appropriations process were subject to the government's civil service system. Further, as with any agency subject to the appropriations process, OMB limits the number of personnel FHLBB may employ. During fiscal year 1986, the limit was 561 for FHLBB and 298 for FSLIC.

FHLBB, therefore, uses the federal government's four pay scales: the "general schedule," "wage board," "printing schedule," and "senior executive service." The vast majority of FHLBB and FSLIC employees are paid according to the general schedule. The general schedule salaries in 1986 ranged from \$9,000 for the lowest level (grade 1) to \$69,000 for the highest legally established level. The majority of those paid on the general schedule at FHLBB are at the grade 12 and higher levels. FHLBB executives are paid according to the senior executive service (SES) schedule, which ranged from approximately \$61,000 to \$72,000 in 1986. As of

January 1, 1986, FHLBB had 11 such executives, and FSLIC had one. However, the law sets salaries of the FHLBB Chairman and its two members, which were approximately \$74,000 and \$72,000, respectively, in 1986.⁹

Our compliance testing of FHLBB's payroll function involved a sample of senior executives. We examined time-and-attendance records, the biweekly payroll summary, employee earning records, and payroll personnel records. We found no discrepancies in the data, and all salary levels were in accordance with the Office of Personnel Management's (OPM) salary scales. We examined the bonus and awards file and found that FHLBB also awarded bonuses within the OPM-prescribed limits.

In addition, we reviewed control testing of the payroll system, including payroll interface with FHLBB's automated accounting system, which we performed as part of our audit of FHLBB's financial statements. We did not identify any significant control weaknesses related to the payroll and personnel system. We therefore concluded that the necessary controls and procedures were in place and working in the payroll and personnel system to ensure the accurate processing of salaries and related payroll transactions.

Federal Reserve Board

The Federal Reserve Act specifies that FRB can determine its own employment, compensation, and benefit policies. Since FRB has never been subject to the congressional appropriations process, the Office of Management and Budget (OMB) therefore has no control over FRB funds. FRB's policy, however, has been to keep its salaries in line with those of the federal government and to determine grade levels by using methods comparable to OPM job evaluation standards.¹⁰ Like the federal government, FRB has four basic pay scales. As with FHLBB, the law sets salaries for the FRB Chairman and members, which were approximately \$75,000 and \$74,000, respectively, as of January 1, 1986.

The FRB regular salary schedule is comparable to OPM's general schedule. Almost 1,300 of the over 1,500 FRB employees are paid on this schedule, which ranges from \$9,000 to a maximum of \$68,000.

⁹The pay of executives in bank regulatory agencies is discussed in a GAO report, *Federal Pay: Executive Salaries in Government-Related Banking Organizations* (GAO/GGD-87-68FS, April 30, 1987).

¹⁰Subsequent to our review, FRB announced plans to change its method of determining salaries by moving to a more market-based structure. Implementation of this change is scheduled to begin in 1989.

Executive FRB personnel, referred to as “officers,” have a four-level pay scale, each with a salary range. This schedule differs somewhat from the government’s SES schedule in that its ranges overlap and its lowest amount, \$53,000, overlaps FRB’s top grade on the regular schedule. FRB believes this scale provides greater flexibility for executive compensation.

To determine if FRB has adequate compensation and benefit policies and procedures in place and working, we examined the related work of FRB’s independent public accountants for 1986. We reviewed and discussed the compensation and benefits audit program with the accountants and reviewed their working papers. Their audit program included tracing payroll transactions for a sample of employees over two pay periods, reconciliations of cash transfers between accounts, evaluation of the accounting system and its controls, and other steps. The independent accountants found no exceptions in their compliance testing and concluded that the compensation and benefit function was a low-risk area. On the basis of our review of the independent accountants’ work, we determined we could rely on their evaluation and did not conduct any additional audit work in this area.

Federal Home Loan Bank Board

Administrative Expenses for 1985 and 1986

Dollars in thousands

Expenses	1986		1985	
	Amount	Percent of total	Amount	Percent of total
Personnel expense	\$16,578	53.12	\$38,527	61.43
Benefits	2,154	6.90	4,689	7.48
Benefits-former personnel	50	0.16	71	0.11
Transportation:				
Per diem	497	1.59	6,007	9.58
Other	9	0.03	33	0.05
Fares	370	1.19	599	0.96
Relocation	0	0.00	11	0.02
Board leased vehicles	9	0.03	8	0.01
Total transportation	885	2.84	6,658	10.62
Other services:				
Computer time	68	0.22	67	0.11
Data conversion	110	0.35	73	0.12
Maintenance	328	1.05	237	0.38
Program, systems modifications	167	0.54	149	0.24
Telecommunications	138	0.44	164	0.26
Software lease	42	0.13	49	0.08
Training	451	1.45	593	0.95
Health program	43	0.14	80	0.13
Productivity gainsharing	N/A	N/A	5	0.01
Legal	9	0.03	26	0.04
Consulting	16	0.05	108	0.17
Auditing	225	0.72	197	0.31
Professional services, other	94	0.30	95	0.15
Temporary clerical	263	0.84	216	0.34
Leasehold improvements, noncapital	N/A	N/A	159	0.25
Repairs to furniture	123	0.39	243	0.39
Moving-labor	1	0.00	2	0.00
Press, news service	33	0.11	11	0.02
Reception and representation	1	0.00	1	0.00
Transcription service	16	0.05	23	0.04
Security investigations	3	0.01	(1)	0.00
Special studies	15	0.05	(43)	(0.07)
Advertising	16	0.05	12	0.02
Printing equipment maintenance	N/A	N/A	3	0.00

(continued)

Appendix V
Federal Home Loan Bank Board
Administrative Expenses for 1985 and 1986

Expenses	1986		1985	
	Amount	Percent of total	Amount	Percent of total
Miscellaneous services, other	132	0.42	150	0.24
Storage household goods	2	0.01	20	0.03
Federal Financial Institute	136	0.44	125	0.20
Microfilm duplication	37	0.12	19	0.03
Building management	127	0.41	75	0.12
Repairs, maintenance	148	0.47	(194)	(0.31)
Guard service	389	1.25	358	0.57
Office moves	398	1.28	98	0.16
Insurance	17	0.05	18	0.03
Custodial services	310	0.99	304	0.48
Landscaping-maintenance	75	0.24	20	0.03
Rink operations	2	0.01	(22)	(0.04)
Courtyard, pool deck	13	0.04	5	0.01
Heating, ventilation, air conditioning	1,048	3.36	285	0.45
Safety, other	43	0.14	14	0.02
Mail service operations	60	0.19	N/A	N/A
Total other services	5,099	16.34	3,744	5.97
Subtotal administrative-type expenditures	24,766	79.36	53,689	85.61
Subtotal rent, utilities, supplies, other	6,444	20.64	9,024	14.39
Total Operating Program	\$31,210	100.00	\$62,713	100.00

Notes:

1. Effective July 6, 1985, all field examination functions and FHLBB personnel previously assigned to and under the direction of FHLBB's Office of Examinations and Supervision were transferred to the 12 district banks. This transfer resulted in a significant reduction in FHLBB personnel and thus its expenses for salary, benefits, and travel. Also, those expenses for examiners were not part of the congressionally limited administrative expenses. Therefore, the figures in this appendix cannot be compared to the congressionally limited budget data presented earlier in this report.

2. Negative amounts in parentheses reflect year-end accrual adjustments. Income from the rink operations is also presented in parentheses.

3. N/A is defined here as not applicable.

Source: FHLBB Controller's Office.

Federal Savings and Loan Insurance Corporation Administrative Expenses for 1985 and 1986

Dollars in thousands

Expenses	1986		1985	
	Amount	Percent of total	Amount	Percent of total
Personnel expense	\$10,114	0.16	\$4,990	0.31
Benefits	1,150	0.02	584	0.04
Transportation:				
Per diem	647	0.01	349	0.02
Other	5	0.00	9	0.00
Fares	477	0.01	277	0.02
Total transportation	1,129	0.02	635	0.04
Other services:				
Computer time	173	0.00	93	0.01
Data conversion	20	0.00	21	0.00
Maintenance	59	0.00	N/A	N/A
Program, systems modification	86	0.00	43	0.00
Telecommunications	1	0.00	1	0.00
Software lease	27	0.00	11	0.00
Training	174	0.00	98	0.01
Health program	9	0.00	9	0.00
Tax, assessments	1,540	0.02	1,015	0.06
Insurance	443	0.01	143	0.01
Appraisals, inspection	49	0.00	82	0.01
Closed real estate owned	N/A	N/A	3	0.00
Service agent, management fees	1,118	0.02	617	0.04
Real estate maintenance	1,844	0.03	548	0.03
Consulting	2,195	0.03	1,875	0.12
Auditing	1,177	0.02	702	0.04
Professional services, other	1,182	0.02	37	0.00
GAO audit	310	0.00	137	0.01
Temporary clerical	858	0.01	479	0.03
Leasehold improvement, noncapital	12	0.00	N/A	N/A
Repairs to furniture	20	0.00	13	0.00
Transcription service	56	0.00	21	0.00
Special studies	125	0.00	21	0.00
Advertising	20	0.00	20	0.00
Miscellaneous services	768	0.01	1,034	0.06
Storage household goods	4	0.00	21	0.00
Microfilm duplication	18	0.00	N/A	N/A
Collected fees	37	0.00	30	0.00

(continued)

**Appendix VI
Federal Savings and Loan Insurance
Corporation Administrative Expenses for
1985 and 1986**

Expenses	1986		1985	
	Amount	Percent of total	Amount	Percent of total
Loan service expense	84	0.00	168	0.01
Petty cash expense	167	0.00	N/A	N/A
Portfolio management fees	62	0.00	113	0.01
Legal expense-problem cases	1,327	0.02	N/A	N/A
Contracted audits	789	0.01	645	0.04
General legal expenses	15,540	0.25	13,212	0.82
Appraisals and inspections	85	0.00	54	0.00
Supervisory exam fee	N/A	N/A	(6)	0.00
Sales expense, closing costs	11	0.00	60	0.00
Interim interest expense	N/A	N/A	46	0.00
Miscellaneous	5	0.00	32	0.00
Cost, settlement of liquidations	30	0.00	4	0.00
Service rendered by FHLBB	25,000	0.40	25,987	1.61
Total other services	55,425	0.88	47,389	2.93
Subtotal administrative-type expenditures	67,818	1.08	53,598	3.32
Subtotal provision for possible future insurance losses, rent, supplies, other	6,227,005	98.92	1,563,051	96.68
Total Operating Program	\$6,294,823	100.00	\$1,616,649	100.00

Notes:

1. N/A is defined here as not applicable.

2. Negative amounts in parentheses reflect year-end accrual adjustments.

Source: FHLBB Controller's Office.

Federal Reserve Board Administrative Expenses for 1985 and 1986

Dollars in thousands

Expenses	1986		1985	
	Amount	Percent of total	Amount	Percent of total
Salaries	\$53,822	64.39	\$53,623	65.59
Benefits	5,463	6.54	6,118	7.48
Fees	188	0.22	132	0.16
Travel expenses:				
Domestic	983	1.18	945	1.16
Foreign	334	0.40	281	0.34
Field staff	640	0.77	540	0.66
Training program	176	0.21	171	0.21
Moving expenses	239	0.29	155	0.19
Applicant	44	0.05	23	0.03
Consultant	126	0.15	115	0.14
Total travel expenses	2,542	3.04	2,230	2.73
Rentals:				
Auto rentals	3	0.00	4	0.00
Leased space	276	0.33	252	0.31
Miscellaneous rentals	120	0.14	242	0.30
Leased space maintenance	24	0.03	17	0.02
Utilities-leased space	11	0.01	8	0.01
Computer rental	1,716	2.05	1,969	2.41
Rental of word processors	452	0.54	451	0.55
Computer, miscellaneous income	(244)	(0.29)	(162)	(0.20)
Total rentals	2,358	2.82	2,781	3.40
Contractual professional services:				
Transcribing and reporting services	5	0.01	12	0.01
Physical examinations program	25	0.03	34	0.04
Laundry and dry cleaning	42	0.05	49	0.06
Instructors training program	114	0.14	67	0.08
Audit of books and review of examination procedures	117	0.14	110	0.13
Legal and consultant fees	512	0.61	336	0.41
Outside graphic artwork	3	0.00	1	0.00
Outside data entry services	17	0.02	15	0.02
Surveys and studies	217	0.26	125	0.15
Outside computer services	183	0.22	101	0.12
Other	53	0.06	61	0.07
Temporary agency fees	164	0.20	125	0.15
Custodial fees	322	0.39	258	0.32

(continued)

**Appendix VII
Federal Reserve Board Administrative
Expenses for 1985 and 1986**

Expenses	1986		1985	
	Amount	Percent of total	Amount	Percent of total
News ticker service	102	0.12	70	0.09
Trash removal and extermination	31	0.04	35	0.04
Data processing	1,938	2.32	1,152	1.41
Word processing software	60	0.07	49	0.06
Total contractual professional services	3,905	4.67	2,600	3.18
Tuition, registration, and membership fees:				
Tuition	177	0.21	197	0.24
Registration fees	407	0.49	293	0.36
Membership fees	7	0.01	5	0.01
Total tuition, registration, and membership fees	591	0.71	495	0.61
Subsidies and contributions	703	0.84	795	0.97
All other:				
Security clearance investigations	13	0.02	18	0.02
Official dinners and receptions	53	0.06	75	0.09
Meals for official guests	91	0.11	119	0.15
Insurance	57	0.07	24	0.03
Miscellaneous	110	0.13	67	0.08
Miscellaneous income	(11)	(0.01)	(91)	(0.11)
Total all other	313	0.37	212	0.26
Subtotal administrative expenses	69,885	83.61	68,986	84.38
Subtotal utilities, printing, supplies, other	13,700	16.39	12,775	15.62
Total Operating Program	\$83,585	100.00	\$81,761	100.00

Notes:

1. Government agencies such as the Department of State and FHLBB receive congressional approval for activities such as official dinners and receptions and meals for official guests. Such funds are usually identified in the appropriation as being for "Official Reception and Representation."

2. N/A is defined here as not applicable.

Source: Federal Reserve Board, Office of the Controller.

Comments From the Federal Home Loan Bank Board

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

Federal Home Loan Bank Board



1700 G Street, N.W.
Washington, D.C. 20552
Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

APR 18 1988

Mr. Frederick D. Wolf, Director
Accounting and Financial Management Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Wolf:

This is in response to your March 1, 1988 request for comments on GAO's draft report on Administrative Expenses at FHLBB and FRB for 1985 and 1986 (B-114893). The report's major thrust centers around the Board's use of the Federal Home Loan Bank's shared expense fund for financing Bank Board travel expenditures, payment of salaries for some Bank Board officials, and payment of certain special studies performed by outside contractors. The GAO concludes that the use of this financing arrangement has resulted in expenditures for FHLBB's administrative expenses which have not been subject to congressional oversight nor were they expressly authorized.

Notwithstanding the Agency's arguments in support of a shared expense fund, the Bank Board decided to eliminate any confusion surrounding the use of this fund. In this regard, the Chairman issued Order Nos. 700 and 702 on December 4, 1986 and December 9, 1986, respectively, which preclude using any shared expense fund for payment of Bank Board related travel expenses. Moreover, it is this Agency's intent to eliminate any further use of a shared expense fund between the FHLBanks and the Bank Board.

The FHLBB's Inspector General has agreed with your recommendation that he conduct periodic compliance reviews of policies applicable to budgeting and disclosure of all administrative expenses to ensure that established policies are strictly being followed. Therefore, with the elimination of the shared expense fund and with the Inspector General's stated review policy, many of GAO's recommendations are no longer applicable.

We believe that disagreements over whether an expense item should or should not have been paid by the shared expense fund is not indicative of the Bank Board's failure to properly budget, account for and report its own expenditures.

See comment 1.

See comment 2.

See comment 3.

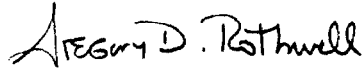
Appendix VIII
Comments From the Federal Home Loan
Bank Board

2

Mr. Frederick D. Wolf, Director

We appreciate the opportunity to provide comments before the report is issued. Please contact Jim Deemer, Controller, if you have any questions. Jim may be reached on 377-6140.

Sincerely,



Gregory D. Rothwell
Executive Director-
Administration and Human Resources

The following are GAO's comments on the Federal Home Loan Bank Board's letter dated April 18, 1988.

GAO Comments

1. Discussed in agency comments section of report.
2. Discussed in agency comments section of report.
3. Our report notes that to ensure the completeness of the FHLBB budget, full congressional oversight, and compliance with the administrative budget limitation, FHLBB needs to budget and account for all its administrative expenditures and report such expenditures to the Congress. Whenever a shared expense fund, a joint expenditure fund, or any other funding source is used to pay any FHLBB administrative expenses, and such expenses are not included in FHLBB's budget, FHLBB is not properly budgeting, disclosing, and accounting for all administrative expenditures incurred on its behalf. Our report shows that this condition existed at FHLBB and recommends actions to prevent its recurrence.

Requests for copies of GAO reports should be sent to:

U.S. General Accounting Office
Post Office Box 6015
Gaithersburg, Maryland 20877

Telephone 202-275-6241

The first five copies of each report are free. Additional copies are \$2.00 each.

There is a 25% discount on orders for 100 or more copies mailed to a single address.

Orders must be prepaid by cash or by check or money order made out to the Superintendent of Documents.

United States
General Accounting Office
Washington, D.C. 20548

Official Business
Penalty for Private Use \$300

First-Class Mail Postage & Fees Paid GAO Permit No. G100
